



Appropriations Update

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U.S. House of Representatives
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FISCAL YEAR 2004 DEFENSE APPROPRIATIONS BILL Conference Report

SUMMARY

On 24 September 2003, the House passed the conference report accompanying the Defense appropriations bill (H.R. 2658; H.Rept. 108-283) by a vote of 407-15. The Senate passed it unanimously on 25 September, and the President signed it on 30 September. The conference agreement provides new budget authority [BA] of \$368.183 billion, \$479 million less than the 302(b) suballocation for the Appropriations Subcommittee on Defense.

The conference report is consistent with the House Concurrent Resolution on the Budget for Fiscal Year 2004 (H.Con.Res. 95). It does not violate provisions of the Congressional Budget Act.

This conference report provides spending for programs in the Department of Defense [DOD] and the military services, except military construction. It reflects most, but not all, spending in the National Defense budget function (Function 050), which also includes atomic energy defense activities of the Department of Energy, and smaller programs in the Commerce Department, Coast Guard, and other agencies.

This conference report does not include the President's request for \$87 billion in fiscal year 2004 BA for ongoing Iraq and Afghanistan operations and reconstruction, of which \$65.053 billion (75 percent) would fund accounts appropriated in this measure. (See further discussion below.)

COST OF THE LEGISLATION

As noted, the conference report provides \$368.183 billion in new budget authority [BA] and \$388.642 billion in outlays for 2004. This is an increase of \$3.940 billion in BA and \$28.988 billion in outlays from fiscal year 2003 (see Table 1 below). The growth in outlays results from BA enacted in prior years – mainly the fiscal year 2003 Iraqi conflict supplemental. Although budget authority in the bill increases by 1.1 percent from the previous year, it is \$3.636 billion below the President's request.

With enactment of this conference report, new BA for defense will have increased an average of 7.2 percent a year in each of the last 4 fiscal years (2000-04).

The bill does not contain emergency-designated new BA, but does include \$3.815 billion in rescissions of previously enacted BA, including \$3.490 billion from the fiscal year 2003 Iraqi conflict supplemental (Public Law 108-11). Outlay savings from these rescissions total \$2.360 billion.

Table 1: Defense Appropriations Bill
(fiscal years; millions of dollars)

	2003 Spending ^a	Administration 2004	302 (b) for 2004	Bill
Budget Authority	364,243	371,819	368,662	368,183
Outlays	359,654	392,859	389,221	388,642

^a Does not include \$62.378 billion in BA and \$34.181 billion in outlays included in the fiscal year 2003 Iraqi conflict supplemental (Public Law 108-11).

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This document was prepared by the majority staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of all the committee's members.

COMPLIANCE WITH THE BUDGET RESOLUTION

The conference agreement complies with sections 302(f) and 311(a) of the Budget Act. The first of these prohibits consideration of bills in excess of a subcommittee's 302(b) suballocation for new BA. The \$368.183 billion in new discretionary BA is \$479 million less than the 302(b) suballocation to the Defense subcommittee; outlays are \$579 million less than the subcommittee's suballocation.

Section 311(a) of the Budget Act prohibits the consideration of bills exceeding the total levels of budget authority and outlays established in the concurrent resolution on the budget. Because this defense measure was the first conference report on an appropriations bill to be agreed to, these total levels would not have been breached by this conference report.

Table 2: Discretionary Spending in the Defense Appropriations Bill
(in millions of dollars)

	2003 Budget Authority ^a	2003 Outlays ^a	2004 Budget Authority	2004 Outlays	Difference BA	Difference Outlays
Military Personnel	94,936	94,326	98,152	98,196	3,216	3,870
Operations and Maintenance	134,474	140,290	127,674	153,972	-6,800	13,682
Procurement	73,905	68,047	75,419	72,720	1,514	4,673
Research, Development, Testing, and Evaluation	57,503	52,709	64,499	60,054	6,996	7,345
Revolving and Management Funds	3,199	3,175	2,152	2,688	-1,047	-487
All Other	226	1,107	287	1,012	61	-95
Total	364,243	359,654	368,183	388,642	3,940	28,988

^a Does not include \$62.378 billion in BA and \$34.181 billion in outlays included in the fiscal year 2003 Iraq conflict supplemental (Public Law 108-11).

DISCUSSION

The conference agreement is \$3.9 billion above 2003 spending, excluding the Iraqi conflict supplemental (see Table 2 above) due to the following:

- *Military Personnel, \$3.2 billion:* The bill provides additional funding above 2003 levels for the Army (\$1.164 billion), Navy (\$1.168 billion), Air Force (\$463 million), and Marine Corps (\$421 million). The conference report provides \$502 million less than the President's request.
- *Operations and Maintenance, \$-6.8 billion:* The report reduces funding for the Air Force (\$2.4 billion), the Navy (\$1.6 billion), and the Army (\$261 million), and rescinds \$3.5 billion from the Iraqi conflict supplemental (Public Law 108-11). It also provides a reduction of \$554 million to reflect savings from management efficiencies. These savings are partly offset by increases for the defense health program (\$846 million), Defensewide activities (\$362 million), and the

Air National Guard (\$339 million). Of the \$846 million in additional funds for the defense health program, the President requested \$383 million.

In addition to the Departmentwide operations and maintenance [O&M] management efficiencies cited above, the conference report also assumes O&M savings from efficiency improvements in each of the services. These include contract management improvements (\$420 million); reduced information technology cost growth (\$200 million); and reductions due to excess carryover (\$44 million). Also included are reductions in working capital fund cash balances (a revolving fund that relies on sales revenue rather than direct appropriations to finance its operations), and rate stabilization adjustments (alterations in the rate the fund charges a user – e.g., the rate a depot charges the Air Force to overhaul an F-16 aircraft – so that the fund breaks even over time); savings from these reductions total \$372 million.

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In total, the conference report provides \$5.6 million less than the President's request for operations and maintenance. It is noteworthy, however, that the President's budget request for fiscal year 2004 also proposes a year-over-year reduction in spending for O&M activities.

- *Procurement, \$1.5 billion:* The conference report provides a net increase of \$1.5 billion above fiscal year 2003. Increases in this category go to shipbuilding (\$2.4 billion); Air Force missiles (\$1.1 billion); Army missiles (\$468 million), Navy aircraft (\$484 million); National Guard and Reserve (\$304 million); and Navy weapons (\$267 million). These increases are offset by reductions in other Army activities (\$909 million), other Air Force activities (\$1.3 billion), Air Force aircraft (\$728 million), and management efficiencies (\$554 million). The conference report provides \$1.049 billion more than the President requested for procurement activities.

- *Research, Development, Testing and Evaluation \$7.0 billion:* The \$7.0-billion increase over the current year is \$2.7 billion above the increase requested by the President. The increase over fiscal year 2003 is distributed among the services as follows: Army (\$2.9 billion); Air Force (\$1.7 billion); Defensewide (\$1.4 billion); and Navy (\$1.5 billion). It is partly offset by a reduction for savings related to management efficiencies (\$554 million).
- *Revolving and Management Funds -\$1.0 billion:* The conference report provides \$1.0 billion less than fiscal year 2003, due in large part to reductions in working capital fund cash balances and rate stabilization adjustments (\$451 million). The report provides \$1.3 billion less than the President requested. A large part of the difference (\$675 million) comes from excluding the President's marginal fuel cost proposal, which would have provided resources to the Department of Defense in the event of sharp increases in the price of fuel.

RELATIONSHIP WITH IRAQ SUPPLEMENTAL

As noted, this appropriations conference report does not include the pending supplemental appropriation for Iraq and Afghanistan, which will significantly increase BA for 2004 defense appropriations (appropriations in Function 050 apart from military construction and atomic energy activities).

The President's fiscal year 2004 supplemental request for Iraq and Afghanistan ongoing operations and reconstruction includes \$65.053 billion for Department of Defense military operations. This \$65.053 billion in fiscal year 2004 budget authority for military operations leads to outlays of \$30.907 billion in fiscal year 2004, and \$24.886 billion in fiscal year 2005. The supplemental would increase the total cost of DOD defense appropriations to \$433.236 billion. Year-over-

year spending would increase by 1.6 percent over the \$426.621 billion for fiscal year 2003 (which includes \$62.378 billion for the fiscal year 2003 Iraqi conflict supplemental). The President's fiscal year 2004 supplemental request also includes \$413 million for military construction, appropriated in a separate bill.

Reflecting the high tempo of operations in Iraq, \$24.190 billion of the operations and maintenance request is for the U.S. Army. Personnel accounts of the Army would receive \$12.859 billion. An additional \$1.989 billion is requested for the Iraqi Freedom Fund, which would be available for transfer to a variety of appropriations accounts including military personnel and operations and maintenance.

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